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C O N F I D E N T I A L SECTION 1 OF 6 BUDAPEST 0280

E.O. 11652: GDS

TAGS: OGEN, HU

SUBJECT: ANNUAL ASSESSMENT - HUNGARY

REF: 75 STATE 291794, 75 STATE 289641, 75 STATE 160744,
75 BUDAPEST 1069

1. U.S. INTERESTS IN HUNGARY - WHERE HUNGARY FITS INTO POLICY
PRIORITIES.

U.S. INTERESTS IN HUNGARY (AND THEY ARE ESSENTIALLY LONG
TERM) MUST BE VIEWED THROUGH LARGER PRISM OF U.S. STAKE IN
FUTURE EVOLUTION OF CENTRAL EUROPE -- MOST WESTERLY AREA UNDER
SOVIET DOMINATION. PRIMARY U.S. INTERESTS ARE:

(1) EVOLUTION OF INDIVIDUAL STATES (HUNGARY, CZECHOSLOVAKIA
AND POLAND) INTO MORE INDEPENDENT ENTITIES, MORE RESPONSIVE TO
WELL-BEING AND LEGITIMATE SELF-INTEREST OF THEIR OWN PEOPLES;

(2) ENHANCEMENT OF EXISTING IDENTIFICATION OF PEOPLES OF
CENTRAL EUROPE WITH WEST.

STEADY DEVELOPMENT ALONG THESE LINES WOULD NOT ONLY
REDUCE RUSSIAN INTRUSION INTO CENTRAL EUROPE'S DOMESTIC
AFFAIRS, BUT WOULD ALSO OVER LONGER TERM WEAKEN POTENTIAL
FOR SOVIET MILITARY ACTION FROM ADVANCED OUTPOSTS IN
CENTRAL EUROPE, THUS DIMINISHING APPRECIABLY PSYCHO-
POLITICAL MILITARY THREAT HANGING OVER EUROPE FOR THREE
DECADES.

SOVIET LEADERS MAY REALC
E TPPT THERE ARE WEAPONS
IN DIPLOMAT'S QUIVE
POTHER THAN BRUTE FORCE. THEY MAY
COME TO RECOGNIZE THAT IT SERVES RUSSIAN INTERESTS AND
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THOSE OF HUNGARY (POLAND AND CZECHOSLOVAKIA) TO RELEASE

SOME MILITARY MANPOWER AND PHYSICAL RESOURCES IN THESE BORDER STATES IN ORDER TO RAISE LIVING STANDARDS, AND THAT INDIVIDUALISTIC ECONOMIC AND SOCIAL DEVELOPMENTS IN COUNTRIES LIKE HUNGARY DO NOT THREATEN WITHDRAWAL FROM WARSAW PACT, DEFECTION FROM SOCIALIST COMMONWEALTH, OR POLITICAL CHALLENGE TO THOSE HOLDING POWER IN BUDAPEST, PRAGUE, OR WARSAW. BUT PROCESS OF INCREASING INDEPENDENCE OF THESE STATES WILL HAVE TO BE GRADUAL. PRECIPITOUS CHANGE IN HUNGARY'S STATUS, OR IN ITS PUBLIC BEHAVIOR, WOULD ALARM LEADERSHIP IN MOSCOW AND PRODUCE DESTABILIZING DEVELOPMENTS AS HAPPENED IN HUNGARY (1956) AND IN CZECHOSLOVAKIA (1968). INSTABILITY WOULD POSE REAL DANGER OF DIRECT CONFRONTATION WITH USSR, WOULD REVEAL AGAIN UNWILLINGNESS OF U.S. (AND ITS MAJOR ALLIES) TO INTERVENE MILITARILY, AND WOULD HALT, AND PERHAPS REVERSE AS WELL, THOSE FAVORABLE EVOLUTIONARY TRENDS STEMMING THUS FAR FROM DETENTE PROCESS. AND U.S. POLITICAL AND ECONOMIC INTERESTS IN ALL OF EASTERN EUROPE WOULD NOT EMERGE UNSCATHED.

2. U.S. POLICY OBJECTIVES OVER NEAR TERM.

HVIWINCIPAL U.S. OBJECTIVE OVER NEAR TERM IS TO CONTINUE AT A REALISTIC AND STEADY PACE PROCESS OF NORMALIZING RELATIONS WITH HUNGARY. SPECIFIC U.S. OBJECTIVES SUBSUMED UNDER THIS MORE GENERAL MUJECTIVE INCLUDE FOLLOWING:

- (1) ENCOUJJEMENT OF HUNGARY'S CONTINUED EXPERIMENTATION WITH AND IMPLEMENTATION OF ECONOMIC AND SOCIAL REFORMS, BUT NOT AT EXPENSE OF POLITICAL INSTABILITY OR ECONOMIC VIABILITY;
- (2) PROTECTION OF U.S. CITIZENS' INTERESTS;
- (3) IMPLEMENTATION BY HUNGARY TO EXTENT POSSIBLE OF PROVISIONS OF HELSINKI DECLARATION;
- (4) EXPANSION OF U.S. EXPORTS AND BILATERAL TRADE TIES; AND
- (5) MAINTENANCE OF TRADITIONAL WESTERN ORIENTATION OF HUNGARIAN PRPLE.

WHILE CONTINUATION OF HUNGARY'S INTERNAL POLICIES ALONG EVOLUTIONARY LINES IS CLEARLY IN AMERICAN INTERESTS, IT IS MUCH MORE DIFFICULT TO GAUGE EXACTLY WHAT AND

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PRECISELY HOW -- LACKING MFN AND EXIM CREDITS AS BAR-GAINING COUNTERS -- U.S. CAN MOST EFFECTIVELY EXERT FAVORABLE INFLUENCE. ENTHUSIASTIC APPLAUSE FOR HUNGARIAN SCHEMES AND OPEN ENCOURAGEMENT OF HUNGARIAN REFORMERS WILL ALMOST CERTAINLY PRODUCE OPPOSITE OF WHAT U.S. DESIRES. THUS, LIMITS ARE CIRCUMSCRIBED AND PACE MEASURED. IN PRACTICAL TERMS, THEREFORE, WE MUST BE GUIDED BY HUNGARIANS' OWN CONCEPTS OF HOW FAR THEY DARE

GO, BASED ON THEIR SOBER ASSESSMENT OF OUTER LIMITS OF SOVIET TOLERANCE. WE SHOULD SEEK TO ASSIST, HOWEVER, WHEREVER AND WHENEVER POSSIBLE WITHIN ABOVE-MENTIONED LIMITS, THOSE ELEMENTS PROVIDING DIRIVING FORCE TO HUNGARY'S CURRENT POLICIES AND WHICH WISH TO REDUCE SOVIET DOMINATION AND TO INCREASE HUNGARY'S FREEDOM OF ACTION. MOST PRACTICAL WAY TO ENCOURAGE CONTINUATION OF HUNGARY'S INTERNAL POLICIES IS THROUGH STEADY BUT NOT OVERLY AMBITIOUS EXPANSION OF COMMERCIAL, CULTURAL, AND PERSONAL CONTACTS BETWEEN U.S. AND HUNGARY, INCLUDING AT CABINET LEVEL. THE 1956-1971 HIATUS IN U.S.-HUNGARIAN CONTACTS CREATED A CHASM OF IGNORANCE BETWEEN TWO PEOPLES. AN ENTIRE GENERATION, HAVING RISEN TO POSITIONS OF POWER AND INFLUENCE IN TWO COUNTRIES, NOW FIND THEMSELVES DEALING WITH ONE ANOTHER ACROSS LARGE KNOWLEDGE GAP WHICH NEEDS TO BE BRIDGED.

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HUNGARIAN INDUSTRIAL AND AGRICULTURAL ESTABLISHMENT, IN DIRE NEED OF MODERNIZATION, REQUIRES NEW TECHNOLOGY. AN INTENSIFIED COMMERCIAL RELATIONSHIP COULD BE A PARTICULARLY VALUABLE TOOL SINCE U.S. IS RECOGNIZED IN HUNGARY AS BEING WELL IN VANGUARD IN INDUSTRIAL AND AGRICULTURAL KNOW-HOW. DEVELOPMENT BY HUNGARY OF A STAKE IN U.S. MARKET COULD HAVE A FAVORABLE IMPACT ALSO IN POLITICAL SPHERE. DIRECT TRADE BETWEEN U.S. AND HUNGARY, ONLY \$37 MILLION BOTH WAYS IN 1972, WAS \$131 MILLION IN 1974 (INCLUDING SALE OF GOLD COINS). FOR FIRST TEN MONTHS OF 1975 TRADE HAD REACHED \$97 MILLION LEVEL WITHOUT GOLD COINS. IF TRADE BETWEEN U.S. AND HUNGARY DEVELOPS AS DYNAMICALLY IN INDUSTRIAL AS IT HAS IN AGRICULTURAL AREA, EVEN WITHOUT MFN AND EXIM FINANCING, PROJECTION OF A TWO-WAY TRADE LEVEL OF

OVER \$200 MILLION BY 1978 MIGHT NOT BE UNREALISTIC.

THERE CAN BE NO DOUBT THAT IT IS IN U.S. INTERESTS TO NURTURE HUNGARIAN AWARENESS OF AND PRIDE IN ITS BASICALLY WESTERN CULTURAL HERITAGE, AND TO EXPAND COOPERATION WITH THE WESTERN WORLD SO THAT HUMANISM, LIBERAL IDEAS AND PLURALISTIC IDEALS CONTINUE TO PERMEATE HUNGARIAN SOCIETY TO DETRIMENT OF MOSCOW'S INFLUENCE. LEADING POSITION OF U.S. IN CULTURAL IMPULSES AND IN SCIENTIFIC RESEARCH WORLDWIDE AFFORDS OPPORTUNITIES TO MAINTAIN AND WHET HUNGARIAN INTEREST IN COOPERATING WITH U.S. IT IS IMPORTANT TO MAXIMIZE THIS EFFORT TO PROVE (AFTER STERILE 1956-1971 PERIOD) THAT TANGIBLE BENEFITS ACCRUE FROM IMPROVING RELATIONS WITH U.S. AGAIN OUR EFFORTS MUST BE FOR LONG PULL.

IN THIS SAME CONTEXT, U.S. MUST CONTINUE TO STRIVE TO PERSUADE KADAR, LAZAR, LOSONCZI, PUJA AND OTHER
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LEADERS THAT IT IS IN THEIR OWN INTEREST TO ACHIEVE, TO FULLEST MEASURE POSSIBLE, IMPLEMENTATION OF ENTIRE HELSINKI DECLARATION. FULL IMPLEMENTATION BY BOTH PARTIES WOULD CONTRIBUTE SIGNIFICANTLY TO LONG-TERM NORMALIZATION OF BILATERAL RELATIONS. HEAVIEST CONCENTRATION OF U.S. EFFORTS SHOULD BE IN AREA OF HUMANITARIAN AND INFORMATIONAL ACTIVITIES.

3. PROGRESS MADE TOWARDS ACHIEVEMENT OF U.S. OBJECTIVES.

BILATERAL RELATIONS ARE PROGRESSING AT A DELIBERATE AND STEADY PACE -- LARGELY IN RESPONSE TO U.S. INITIATIVE -- REFLECTING OUR OWN REGIONAL PRIORITIES AS WELL AS PACE AND LEVEL OF DEVELOPMENT THAT HUNGARY IS PREPARED TO ACCEPT, IN VIEW OF ITS SPECIAL RELATIONSHIP TO SOVIET UNION. RECENT HUNGARIAN EFFORTS TO BE COOPERATIVE IN A VARIETY OF WAYS ARE ENCOURAGING; POLITICAL ATMOSPHERE IS GOOD, DESPITE FACT THAT, AS REALISTS, SENIOR HUNGARIAN AUTHORITIES KNOW THEY CANNOT EXPECT MUCH PROGRESS OVER NEAR TERM TOWARDS THEIR TWO MAIN OBJECTIVES -- ATTAINMENT OF MOST FAVORED NATION TREATMENT AND RETURN OF CROWN OF ST. ISTVAN.

WE HAVE MADE NOTABLE PROGRESS IN BRINGING AMERICAN POLICY-MAKERS INTO CLOSER CONTACT WITH THEIR HUNGARIAN COUNTERPARTS IN PRESENT PERIOD OF DETENTE. THROUGH SECRETARY KISSINGER'S MEETING IN HELSINKI WITH FOREIGN MINISTER PUJA WE WERE ABLE TO RESPOND TO EVIDENCE OF GOH INTEREST IN ENTERING INTO A POLITICAL DIALOGUE WITH U.S. DEPUTY SECRETARY INGERSOLL VISITED BUDAPEST IN SEPTEMBER AS GUEST OF STATE SECRETARY FOR FOREIGN AFFAIRS MARJAI (PUJA'S DEPUTY); AND -- TO SURPRISE OF MOST DIPLOMATIC OBSERVERS IN BUDAPEST -- MET WITH ANDRAS GYENES, FOREIGN AFFAIRS SPECIALIST OF HSWP CENTRAL

COMMITTEE. DEPUTY FOREIGN MINISTER JANOS NAGY PAID A BRIEF WORKING VISIT TO WASHINGTON AT AMERICAN INITIATIVE EARLY IN DECEMBER. IN ADDITION, COMMERCE SECRETARY ROGERS MORTON, AGRICULTURAL SECRETARY EARL BUTZ, AND ASSISTANT SECRETARY OF TRANSPORTATION BINDER VISITED BUDAPEST DURING LAST QUARTER OF 1975; EACH WAS RECEIVED WITH CORDIALITY AT HIGH LEVEL AND WITH ATTENDANT PUBLICITY. ON HUNGARIAN SIDE FOREIGN TRADE MINISTER BIRO, AGRICULTURE MINISTER ROMANY AND

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HIS DEPUTY (VANCSA), DEPUTY PRIME MINISTER HAVASI AND SZEKER, AND MARJAI HAVE BEEN INVITED AND ACCEPTED IN PRINCIPLE INVITATIONS TO VISIT U.S. IN 1976. THUS, DIALOGUE IS JOINTED, PARTICULARLY IN THOSE AREAS PROMISING TO BE MOST FRUITFUL IN OUR BILATERAL REALTIONS: COMMERCE, AGRICULTURE, AND INDUSTRY.

ON COMMERCIAL SIDE THERE HAS BEEN A STEADY, UNDRAMATIC BUT IMPRESSIVE INCREASE IN TWO-WAY TRADE BETWEEN U.S. AND HUNGARY WITH LATEST AVAILABLE FIGURES (JAN 1975-OCT 1975) WHOWING A \$41 MILLION SURPLUS ON U.S. EXPORT ACCOUNT. (THESE STATISTICS DO NOT INCLUDE SALES BY EUROPE-BASED SUBSIDIARIES OF U.S. MULTINATIONALS.) U.S. AND HUNGARY SIGNED A CHAMBER OF COMMERCE AGREEMENT AND FORTHRIGHT USG SUPPORT OF CORPORATE EXECUTIVES ATTENDING FIRST MEETING OF U.S.-HUNGARIAN JOINT COUNCIL SERVED TO DISPEL LINGERING HUNGARIAN DOUBTS RE SERIOUSNESS OF U.S. COMMITMENT TO EXPANSION OF EAST-WEST TRADE. BY APPROVING THE LONG-STANDING FAIRCHILD REQUEST LATE IN YEAR TO SUPPLY SEMI-CONDUCTOR MANUFACTURING EQUIPMENT TO HUNGARY, USG DEMONSTRATED TO GOH THAT U.S. IS TILL A RELIABLE SOURCE OF ADVANCED TECHNOLOGY DESPITE PROTRACTED EXPORT CONTROL PROCEDURES. ANOTHER MAJOR AMERICAN COMPANY (CORNING) INAUGURATED AT YEAR'S END FIRST U.S. JOINT VENTURE WITH A HUNGARIAN ENTERPRISE (RADELKIS). GENERAL MOTORS ENTERED INTO COOPERATIVE CONTRACTUAL ARRANGEMENTS WITH HUNGARIAN ENTERPRISES MOGURT AND RABA; AND FIRST NATIONAL CITY BANK OFFICIALS STILL ASSERT THEY HAVE PLANS TO OPEN A BUDAPEST OFFICE IN 1976.

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ON POLITICAL SCENE CLIMATE IS MARKEDLY IMPROVED. WE HAVE AGREE ON MUTUAL ABOLITION OF CLOSED ZONES. VIETNAM WAR NO LONGER ENCUMBERS U.S.-HUNGARIAN RELATIONS AND, PERHAPS AS RESULT OF A GENTLE BUT POINTED SUGGESTION AT TOP GOH LEVEL, HUNGARIAN PRESS APPEARS TO HAVE LOST INTEREST IN PUERTO RICAN INDEPENDENCE ISSUE. HUNGARIAN CORRESPONDENTS, RESIDENT IN WASHINGTON AND NEW YORK, HAVE BEEN NOTABLY MORE OBJECTIVE IN TREATMENT OF AMERICAN SCENE. ARTICLES IN LOCAL PRESS ON AMERICA HAVE TONED DOWN THEIR COLD WAR RHETORIC AND, IN CONTRAST TO NOT SO DISTANT PAST, HAVE SHOWN MORE THAN A SUPERFICIAL, MARXIST UNDERSTANDING OF DOMESTIC AMERICAN SOCIETY. DESIGNATION OF FERENC ESZTERGALYOS AS AMBASSADOR TO WASHINGTON IS A DISTINCT PLUS IN TERMS OF PERSONAL COMPETENCE, POSITIVE OUTLOOK, AND UNDERSTANDING OF HUNGARY'S LARGER INTERESTS IN DEALING WITH U.S. AND, FINALLY, AMBASSADOR'S ONE AND ONE-HALF HOUR CALL ON FIRST SECRETARY JANOS KADAR IN DECEMBER PROVIDED AN OBVIOUS PUBLIC SIGN THAT BILATERAL RELATIONS ARE BETTER AND THAT MORE PROGRESS IS EXPECTED -- AN INTERPRETATION WHICH HUNGARIAN OFFICIALS AT ALL LEVELS HAVE BEEN AT PAINS TO EMPHASIZE TO US. PRESIDENT'S ORAL MESSAGE TO KADAR WAS EXCEEDINGLY WELL-RECEIVED AND LEAVES DOOR AJAR FOR FURTHER COMMUNICATION BETWEEN TWO AT AN APPROPRIATE TIME.

MULTI-REGIONAL PROJECTS (UNDER U.S. INTERNATIONAL VISITORS PROGRAM) HAVE FLOURISHED STEADILY, ATTRACTING PARTICULARLY HUNGARIAN MIDDLE-LEVEL EXPERTS IN JOURNALISM, URBAN PLANNING, ENERGY ECONOMICS AND MARKETING. UNDER IREX, NSF AND NAS AGREEMENTS TWENTY
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OR MORE AMERICAN AND HUNGARIAN RESEARCHERS ARE EXCHANGED ANNUALLY IN EACH DIRECTION. EMBASSY HAS SUCCEEDED IN OFFICIALLY SPONSORING ON AD HOC BASIS APPEARANCE OF

TEN AMERICAN GUEST LECTURERS DURING PAST YEAR AT SEVERAL UNIVERSITIES AND OTHER PRESTIGIOUS INSTITUTIONS OF HIGHER LEARNING, AND THERE IS REASON TO BELIEVE THAT THIS COMMUNICATION CONDUIT CAN GRADUALLY BE BROADENED AND REGULARIZED IN DUE COURSE. HUNGARIAN AUTHORITIES HAVE NOT INTERFERED WITH EVER-EXPANDING SERIES OF WELL-ATTENDED CULTURAL AND INFORMATIONAL PROGRAMS PRESENTED BY PAO AT HIS RESIDENCE. HUNGARY CONTINUES TO RELISH AMERICAN CULTURAL FARE: WORKS OF AMERICAN WRITERS ARE PUBLISHED AND READ; MORE THAN 50 AMERICAN FILMS WERE SHOWN AT CINEMAS AND ON TV DURING PAST YEAR; AND A NUMBER OF PLAYS BY AMERICAN AUTHORS ARE TRANSLATED AND PRESENTED ON HUNGARIAN STAGE.

IN INFORMATIONAL AREA WE HAVE EXTENSIVE ACCESS TO MEDIA LEADERS ENABLING US TO PRESENT OUR VIEWS ON A BACKGROUND BASIS; NUMBER OF HUNGARIAN TELEVISION PROGRAMS ON AMERICAN SOCIETY FACILITATED BY EMBASSY HAS BEEN ON INCREASE; WE DISTRIBUTE 50 COPIES OF WIRELESS FILE BULLETIN TO KEY PERSONNEL AS WELL AS BREATHABLE QUANTITIES OF ECONOMIC AND OTHER INFORMATION, AND HUNDREDS OF COPIES OF USIA PUBLICATIONS SUCH AS ECONOMIC IMPACT, DIALOGUE, AND HORIZONS. FIVE THOUSAND COPIES OF POST'S HUNGARIAN-LANGUAGE MAGAZINE ARE PICKED UP AT EMBASSY. HUNGARY HAS NOT JAMMED WESTERN BROADCASTS OR TELECASTS FOR MANY YEARS; SO VOA AND RFE GET THROUGH TO HUNGARIANS, WITH FORMER ENJOYING WIDE LISTENERSHIP. AMERICAN JOURNALISTS VERY RARELY ENCOUNTER DIFFICULTY OR DELAY GETTING INTO HUNGARY AND ARE NOT HARASSED. VISITING NEWSMEN FILE THEIR REPORTS FROM HUNGARY ROUTINELY AND WITHOUT INTERFERENCE.

THERE IS STILL PLENTY OF ROOM FOR IMPROVEMENT, HOWEVER. PROGRESS ON DIVIDED FAMILY ISSUES HAS NOT BEEN RAPID, DESPITE REPEATED STATEMENTS BY DEPUTY FOREIGN MINISTER NAGY AND OTHER SENIOR OFFICIALS THAT, IF PURSUED PERSISTENTLY AND QUIETLY, THERE WOULD BE. FOREIGN OFFICE -- PROBABLY UNDER POLICE AND MILITARY PRESSURE -- HAS REBUFFED U.S. PROPOSAL TO ABOLISH ANACHRONISTIC AGREEMENT PROCEDURE FOR MILITARY ATTACHES. CONFIDENTIAL

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THE U.S., FOR ITS PART, HAS BEGRUDGINGLY -- AND INEXPLICABLY TO HUNGARIANS -- MOVED AT A GLACIAL PACE IN RESPONDING TO FINANCE MINISTER FALUVEGI'S OFT-STATED INTEREST IN SETTLING AND PAYING \$4 MILLION WWI FLOUR DEBT IN ORDER TO RENDER JOHNSON ACT NO LONGER APPLICABLE TO HUNGARY. USG OFFICIALS HAVE RAISED BLOCJND#FORINT ACCOUNTS QUESTION SEVERAL TIMES WITH HUNGARIANS BUT SO FAR TO NO AVAIL. USG OWNS NUMEROUS PIECES OF USELESS PROPERTY IN BUDAPEST AND HAS YET TO COME TO GRIPS WITH

PROBLEM.

IN COMPLIANCE WITH DEPUTY SECRETARY INGERSOLL'S SEPTEMBER STATEMENT TO FOREIGN MINISTER PUJA, EMBASSY HAS COMPLETED IN SKELETON FORM, FOR EVENTUAL SUBMISSION TO WASHINGTON FOR COMMENT AND APPROVAL, A PAPER SETTING FORTH GOALS, STRATEGY AND TACTICS TO BE USED IN FUTURE NEGOTIATIONS ON EMBASSY'S PROPERTY NEEDS WITH GOH. WE HAVE BEEN SEVERELY HANDICAPPED BY FBO'S INABILITY TO SEND AN EXPERT TO BUDAPEST TO DETERMINE 1976 VALUE OF WHAT USG OWNS. EMBASSY DRAFT WILL RAISE SEVERAL MAJOR POLICY QUESTIONS REQUIRING GUIDANCE (E.G. FULLY ACCEPTABLE USG-OWNED PROPERTY SETTLEMENT VS. CROWN OF ST. ISTVAN). GRANTING OF MFN TO HUNGARY STILL APPEARS TO BE AT LEAST A YEAR OR MORE AWAY. BEYOND REPEATED STATEMENTS AT HIGH LEVELS THAT U.S. WILL EVENTUALLY RETURN THE CROWN OF ST. ISTVAN, NO TIME FRAME HAS EVER BEEN SPECIFIED FOR ITS RETURN NOR HAVE THE HUNGARIANS BEEN TOLD CONDITIONS UNDER WHICH IT MIGHT BE RETURNED. WE HAVE RECOMMENDED THAT DEPARTMENT UNDERTAKE A THOROUGHGOING BASIC STUDY OF ENTIRE QUESTION AND EVEN SUBMITTED IN OUTLINE A LIST OF ISSUES WHICH WASHINGTON PLANNERS MIGHT FIND WORTHY OF ANALYSIS IN THAT CONTEXT. IN 1975 WE WITNESSED A NEW DEVELOPMENT; FOR FIRST TIME GOH OFFICIALLY AND AT HIGH LEVELS REQUESTED RETURN OF CROWN AND ROYAL REGALIA. PRIME MINISTER LAZAR WAS FIRST; THEN FOREIGN MINISTER PUJA DID SO; THEN PRESIDENT LOSONCZI; AND FINALLY FIRST SECRETARY KADAR HIMSELF. WHILE ALL SAID THEY ARE PREPARED TO BE PATIENT, WE DO NOT KNOW HOW LONG THEIR PATIENCE WILL LAST.

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IN ADDITION, ARTHRITIC CULTURAL BUREAUCRACY OF GOH IS SLOWLY COMING AROUND TO NEGOTIATING AN UMBRELLA CULTURAL AND SCIENTIFIC EXCHANGE AGREEMENT. ACCORDING TO ALL PRESENT INDICATIONS, MANUFACTURE OF IMPLEMENTING AGREEMENTS CONTAINING CONCRETE PROJECTS IS LIKELY TO BE AS SLOW OR SLOWER. HUNGARIANS ARE RELUCTANT TO ACCEPT LARGE AMERICAN EXHIBITIONS. AN AGREEMENT IN PRINCIPLE HAS EXISTED FOR OVER A YEAR TO PROCEED WITH INDIVIDUAL IV GRANTS (12) BUT HUNGARIAN BUREAUCRATS HAVE YET TO PRODUCE A SINGLE NOMINATION. GOH REMAINS FIRMLY OPPOSED TO ACADEMIC EXCHANGE OF AMERICAN PROFESSORS AND LECTURERS FOR LONGER THAN SIX WEEKS. FURTHERMORE, EMBASSY CANNOT USE MAILS TO DISTRIBUTE INFORMATIONAL MATERIALS AS A RESULT OF RESTRICTIONS IMPOSED IN 1959. U.S. UNILATERALLY RESCINDED THESE RESTRICTIONS ON HUNGARIAN EMBASSY IN WASHINGTON IN 1969, BUT HUNGARIAN SIDE HAS NOT RECIPROCATED.

ON CSCE, HUNGARIANS HAVE STATED THEIR INTENTION TO "IMPLEMENT FULLY" ENTIRE HELSINKI DECLARATION AND CLAIM TO BE AHEAD OF WEST ON COMPLIANCE WITH BASKET III. BUT WE HAVE NOT SEEN ANY CHANGE FOR BETTER IN GOH CONDUCT DIRECTLY ATTRIBUTABLE TO CSCE. THUS FAR HELSINKI SUMMIT DECLARATION HAS HAD NO NOTICEABLE IMPACT ONE WAY OR ANOTHER ON INFORMATIONAL AND CULTURAL SCENE IN HUNGARY, EITHER IN ITS INTERNAL OR EXTERNAL MANIFESTATIONS. AND, FINALLY, REGARDING NEM, ALTHOUGH WORLDWIDE ADVERSE ECONOMIC TRENDS HAVE CAUSED SOME BELT-TIGHTENING AND HAVE SLOWED FURTHER FAVORABLE EVOLUTION OF SYSTEM, ESSENTIAL ELEMENTS DISTINGUISHING HUNGARY'S QUASI-MARKET ECONOMIC SYSTEM FROM ORTHODOX MARXIST ECONOMIES ELSEWHERE IN EASTERN EUROPE REMAIN INTACT.

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4. FUTURE TRENDS AND PROBLEMS THAT MIGHT AFFECT U.S. INTERESTS AND OBJECTIVES.

U.S.-HUNGARIAN RELATIONS DURING COURSE OF NEXT YEAR WILL BE AFFECTED BY A NUMBER OF FACTORS OUT OF RANGE OF SIMPLE BILATERAL RELATIONS. FOR ONE THING, THERE IS NOT LIKELY TO BE PROGRESS TOWARDS HUNGARY'S TWIN OBJECTIVES -- MFN AND RETURN OF CROWN. TOP HUNGARIANS SEEM TO UNDERSTAND THAT ADMINISTRATION, DESPITE ITS VALIANT EFFORTS WITH CONGRESS, STANDS LITTLE CHANCE IN AN ELECTION YEAR OF EFFECTING MAJOR CHANGE IN PRESENT FOREIGN TRADE LEGISLATION. AND, THEY SEEM EQUALLY AWARE

THAT IN 1976 IT IS HIGHLY UNLIKELY THAT ANYONE IN WASHINGTON WILL TAKE ANY DECISION REGARDING THE CROWN, NO MATTER HOW FULLY AND FAITHFULLY HUNGARIAN GOVERNMENT COOPERATES WITH AND DISCHARGES ITS OBLIGATIONS TOWARD USG.

CURIOSLY ENOUGH, IT IS OUR ASSESSMENT THAT HUNGARIAN OFFICIALDOM AND PARTY POTENTATES ARE IN A NOT DISSIMILAR HOLDING PATTERN. FOR ONE THING, KADAR AND COMPANY, CAUTIOUS AS EVER, ARE NOT LIKELY TO TAKE ANYTHING BUT MOST CAREFULLY MEASURED STEPS VIS-A-VIS CAPITALIST WORLD -- ESPECIALLY WITH U.S. SUPERPOWER -- UNTIL THERE IS A CLEARER VIEW OF WHAT IS LIKELY TO COME OUT OF CPSU 25TH PARTY CONGRESS. WILL BREZHNEV CONTINUE AT HELM OR NOT? IF HE DOES NOT, WHAT WILL THIS MEAN? WILL THERE BE A PERIOD OF DRIFT WHILE NEW SOVIET LEADERS DEFINE NEW OR REDEFINE OLD POLICY? WILL DETENTE CONTINUE, PERMITTING HUNGARY UNDER UMBRELLA OF SOVIET APPROVAL, TO CONTINUE TO IMPROVE RELATIONS WITH WEST? OR WILL THERE BE A RETURN TO COLD WAR TACTICS AND TIGHTER INTERNAL CONTROLS? AT MOMENT IT IS OUR IMPRESSION THAT HSWP LEADERSHIP BELIEVES SAFEST THING TO DO IS TO STAND IN PLACE. RESULT WILL VERY LIKELY BE FOR, AT LEAST NEXT TWO OR THREE MONTHS, VERY LITTLE DYNAMIC ACTION, NO NEW INITIATIVES IN HUNGARY'S RELATIONS WITH WEST IN GENERAL, AND WITH U.S. IN PARTICULAR. THIS DOES NOT MEAN, HOWEVER, THAT RELATIONS WILL BECOME LESS FRIENDLY: IT SIMPLY MEANS THAT WHILE CLIMATE MAY NOT CHANGE, PACE AND RHYTHM OF POSITIVE DEVELOPMENTS WILL SLOW DOWN UNTIL AFTER CPSU CONGRESS.

INCREASING RELIANCE OF HUNGARY ON USSR FOR RAW
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MATERIALS AS WELL AS WELL-TIMED SOVIET DRIVE FOR GREATER ECONOMIC INTEGRATION AND MORE CEMA UNITY HAVE LESSENED HUNGARY'S INDEPENDENCE OF ACTION IN FOREIGN ECONOMIC AFFAIRS. SHORTAGE OF FOREIGN EXCHANGE AND INFLATIONARY SPIRAL IN WEST AND ELSEWHERE HAVE HAD AN UNDESIRABLE IMPACT ON GROWTH RATE. EFFECTS OF THESE PROBLEMS COULD PRODUCE A BACKLASH AGAINST GOVERNMENT ON PART OF A POPULATION THAT HAS COME TO RECOGNIZE ITS STANDARD OF LIVING AS ONE OF HIGHEST IN WARSAW PACT AREA AND WHICH, MORE AND MORE, HAS BEEN WILLING TO CONTRIBUTE TO ACHIEVEMENT OF GOVERNMENT'S ECONOMIC AND SOCIAL GOALS AS LONG AS RESULTS OF THEIR CONTRIBUTION ARE VISIBLE.

ALTHOUGH AT MOMENT IT APPEARS THAT HUNGARY WISHES TO SETTLE ITS WWI DEBT IN TOTO, AND TO CLEAR UP ONCE AND FOR ALL ITS EXCESS PROPERTY DEBT IN INTEREST OF WIPING SLATE CLEAN OF OLD DEBTS, SETTLEMENT OF BLOCKED FORINTS ACCOUNTS ISSUE MAY PROVE MORE DIFFICULT TO RESOLVE.

DEVELOPMENTS IN POST-TITO YUGOSLAVIA COULD HAVE A DELETERIOUS IMPACT ON U.S.-HUNGARIAN RELATIONS, PARTI-

CULARLY SINCE SOVIETS ALMOST CERTAINLY WILL TAKE MEASURES TO TEST YUGOSLAV UNITY AFTER TITO'S DEMISE. IF THOSE MEASURES WERE TO INCLUDE SPARKING WIDESPREAD DISORDERS IN YUGOSLAVIA USING EXTREMIST YUGOSLAV EMIGRE ORGANIZATIONS, STAGE WOULD BE SET FOR SOVIETS TO APPLY INCREASING POLITICAL PRESSURE, TO THREATEN, AND TO POSITION THEIR MILITARY FORCES TO GIVE SUBSTANCE TO THESE THREATS.

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IF SOVIETS DECIDE TO PURSUE SUCH A COURSE OF ACTION, THEY WOULD PRESS THEIR WARSAW PACT ALLIES TO PARTICIPATE AS THEY DID IN CZECHOSLOVAKIA IN 1968 TO DEMONSTRATE UNITY AND SOLIDARITY OF WARSAW PACT WHEN THEY BELIEVE THAT A THREAT EXISTS TO A SOCIALIST STATE. HUNGARIAN TERRITORY WOULD SERVE AS MAIN STAGING AREA FOR SOVIET TROOPS INVOLVED IN ANY GROUND OPERATIONS AGAINST YUGOSLAVIA, AND HUNGARIAN ARMED FORCES WOULD UNDOUBTEDLY PARTICIPATE, EVEN IF ONLY IN TOKEN NUMBERS. HOW WE DEAL WITH PROBLEM IN HUNGARY WILL DEPEND ENTIRELY ON REACTION OF U.S. AND ITS WESTERN ALLIES TO SITUATION PROVOKED IN YUGOSLAVIA. IN ANY CASE, AN ABRUPT DETERIORATION OF U.S.-HUNGARIAN RELATIONS WOULD BE INEVITABLE.

AND, FINALLY, THE MAJOR DETERMINANT IN U.S.-HUNGARIAN RELATIONS IS THE STATE OF U.S.-SOVIET RELATIONS. IF THESE, FOR WHATEVER REASON, SHOULD EXPERIENCE A SHARP DETERIORATION, EFFECTS WOULD BE FELT HERE IN A MATTER OF DAYS. IN OTHER WORDS, CONTINUED PROGRESS TOWARDS MORE NORMALIZED RELATIONS BETWEEN U.S. AND HUNGARY IS CLEARLY CONTINGENT UPON FAVORABLE OR AT LEAST STABLE U.S.-SOVIET RELATIONS.

5. HOW THE U.S. SHOULD MEET ITS POLICY OBJECTIVES IN

1976 -- COURSES OF ACTION.

UNLESS THERE IS A RADICAL CHANGE IN MOSCOW LEADERSHIP, OR A SUDDEN DECLINE IN HIS OWN HEALTH, KADAR WILL CONTINUE TO GUIDE FORTUNES OF HUNGARIAN PEOPLE DURING COURSE OF THE NEXT (1976-1980) FIVE-YEAR PLAN. AT MOMENT THERE IS NO PERCEIVED CHALLENGE TO HIS AUTHORITY ON HUNGARIAN SCENE -- CONFIDENTIAL

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AND NO KNOWN REASON WHY MOSCOW SHOULD WISH TO CONSIGN HIM TO HISTORY'S ASH-BIN.

QUESTION OF EVENTUAL SUCCESSORSHIP TO KADAR, HOWEVER, CONTINUES TO LOOM LARGE. DESPITE THIS CONCERN, WHICH MANIFESTS ITSELF EVERY NOW AND AGAIN, THERE IS NO SIGN OF ANY HEIR APPARENT.

EVER SINCE 11TH PARTY CONGRESS LAST MARCH, KADAR AND OTHER HUNGARIAN LEADERS HAVE MADE IT CLEAR THAT INTERNAL POLICY WILL CONTINUE TO BE MODERATE, ALBEIT ADJUSTED AND ATTUNED FROM TIME TO TIME TO MEET NEEDS OF A GIVEN SITUATION. UNDER FACELESS LEADERSHIP OF JANOS KADAR EMPHASIS WILL CONTINUE TO BE ON PRAGMATISM, CAUTION AND RELATIVE TOLERANCE, WITH A HIGH PRIORITY ON CONSUMER-ORIENTED POLICIES.

WITH FOREGOING AS BACKGROUND, U.S. SHOULD UNDERTAKE FOLLOWING COURSES OF ACTION DIRECTED TOWARDS ACHIEVING ITS MAIN OBJECTIVES IN HUNGARYWE

A. ECONOMIC AND COMNRRICAL

1) NEGOTIATE WITH HUNGARIANS TO COLLECT FULL PAYMENT OF OVERDUE WWI RELIEF DEBT.

2) SETTLE BLOCKED FORINTS ACCOUNT PROBLEM ONCE AND FOR ALL.

3) REACH FINAL SOLUTION AND CLOSE SURPLUS PROPERTY ACCOUNTS.

4) ENCOURAGE KEY SENIOR ECONOMIC POLICY OFFICIALS (HAVASI, SZEKER, CAMANY AND BIRO) TO ACCEPT INVITATIONS EXTENDED TO THEM TO VISIT U.S.; AND ENSURE THAT U.S. TRAVEL PROGRAM PREPARED FOR THEM AND ACCOMPANYING AIDES MEETS THEIR REQUESTS AND ALSO GIVES THEM SOME UNDERSTANDING OF SIZE, POWER, MODERNITY, AND VITALITY OF AMERICAN ECONOMY.

5) CONTINUE TO ENCOURAGE DISCREETLY, WHEREVER AND WHENEVER POSSIBLE, HUNGARY'S "INDIVIDUALITY" IN ITS INTERNAL ECONOMIC SYSTEM.

6) CONTINUE TO SUPPLY BREEDING STOCK FOR HUNGARY'S GROWING LIVESTOCK INDUSTRY, ASSURE HUNGARIANS THAT U.S. IS A RDCIABLE SUPPLIER OF SOYBEAN MEAL, PROVIDE TECHNICAL KNOW-HOW FOR CROP PRODUCTION AND FOOD PROCESSING, CONTINUE USG ASSISTANCE WITH MEAT INSPECTION SYSTEM AND IN PRODUCING HIGH QUALITY MERCHANDISE WHICH CAN COMPLY IN U.S. MARKET, ENCOURAGE JOINT PROJECTS WHICH COULD

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RESULT IN INCREASED U.S. EXPORTS OF SOYBEAN MEAL, FEED GRAINS, BREEDING STOCK, EQUIPMENT AND TECHNOLOGY, AND FURTHER DEVELOP TIES WITH MINISTRY OF AGRICULTURE AND WITH INDIVIDUAL AGRICULTURAL ENTERPRISES.

7) REGULARIZE PARTICIPATION IN BUDAPEST SPRING FAIR.

8) FACILITATE ACTIVITIES OF U.S. FIRMS AND EXPLORE WITH GOH POSSIBILITY OF MULTIPLE ENTRY VISAS FOR BUSINESSMEN WITH RECURRING INTERESTS IN HUNGARY.

9) ACCELERATE USG'S TEDIOUSLY SLOW EXPORT CONTROL PROCEDURES, WHICH NOW DETER PROSPECTIVE HUNGARIAN PURCHASERS FROM BIDDING, TO GET FASTER "YES" OR "NO" DECISION.

10) SEEK OUT NEW TRADE OPPORTUNITIES AND REPORT ON COMMERCIAL ATMOSPHERE.

IN OUR VIEW PROVIDING OFFICE AND RESIDENCE FACILITIES IN BUDAPEST FOR AMERICAN BUSINESSMEN IS NOT AN ISSUE. VIENNA IS NEARBY AND PROVIDES BETTER SUPPORT AND BETTER QUALIFIED PERSONNEL AT EQUAL OR LOWER PRICES THAN CAN BE OBTAINED IN BUDAPEST. AMERICAN BUSINESSMEN CAN ARRIVE IN BUDAPEST NIGHT BEFORE A MEETING, OR EARLY IN MORNING, AND STILL DEPART IN LATE AFTERNOON OF NEXT OR SAME DAY IF NEED BE. HOUSING AND OFFICE SPACE IN BUDAPEST ARE TIGHT AND IT WILL BE MANY, MANY YEARS BEFORE SUITABLE OFFICE SPACE AND TRAINED PERSONNEL IN SUFFICIENT QUANTITY AND QUALITY ARE AVAILABLE FOR FOEIGNERS. AT MOMENT LEVEL OF U.S. COMMERCIAL INTEREST IN HUNGARY DOES NOT WARRANT PUSHING THIS ISSUE WITH GOH. WE SHOULD POINT OUT, HOWEVER, THAT WHEN TIME COMES THAT U.S. INTEREST SEEM TO CALL FOR PROVISION OF SUITABLE BUSINESS FACILITIES, GOH HAS ALREADY CREATED LEGAL FRAMEWORK FOR DOING SO.

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B. CULTURAL

1) PRESS GOH TO CONCLUDE -- WITHOUT FURTHER DELAY --
A CULTURAL AND SCIENTIFIC AGREEMENT JOCEPTABLE TO U.S.

2) INSIST -- AS SINE QUA NON FOR SIGNATURE OF
CULTURAL AND SCIENTIFIC AGREEMENT -- THAT GOH LIFT ITS
RESTRICTIONS ON INFORMATIONAL ACTIVITIES BY EMBASSY
BUDAPEST.

3) EXPAND CULTURAL, SCIENTIFIC, AND EDUCATIONAL

EXCHANGES; INTRODUCE NEW PROGRAMS FEATURING INDIVIDUAL
IV GRANTS.

4) INCREASE PROGRAMMING OF SPEAKERS, BOTH ON-PREMISES
AND OFF, ON IMPORTANT ASPECTS OF U.S. SOCIETY.

5) CONTINUE TO URGE HUNGARIAN ACCEPTANCE
OF A MAJOR AMERICAN EXHIBIT.

6) CONTINUE TO EXPLAIN U.S. FOREIGN POLICY TO MEDIA
LEADERS THROUGH REGULAR BRIEFINGS BY EMBASSY OFFICERS
AND THROUGH EVER WIDE DISTRIBUTION OF BACKGROUND
MATERIALS AND POLICY STATEMENTS.

7) AS SOON AS GOH INFORMATION RESTRICTIONS ARE
LIFTED, INAUGURATE REGULAR DISTRIBUTION BY MAIL OF
INFORMATION MATERIALS ON AMERICAN SOCIETY AND POLICY
TO MAJOR CONTACTS IN POLITICAL, CULTURAL, ACADEMIC
AND ECONOMIC FIELDS.

8) PROBE GOH AT SENIOR LEVELS TO GET OFFICIAL
APPROVAL EN PRINCIPE OF ESTABLISHMENT AT AN UNDERTERMINED
DATE OF AN -OFF-PREMISES AMERICAN CULTURAL CENTER IN
BUDAPEST.

C. CONSULAR

1) CONTINUE PRESENT, STEADY EFFORT BY "QUIET
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DIPLOMACY" TO RESOLVE "DIVIDED FAMILIES" CASES (10
FAMILIES INVOLVING 16 INDIVIDUALS).

2) IMPROVE PROCEDURES ON BASIS STRICT RECIPROCITY
SO THAT HUNGARIAN AND AMERICAN OFFICIAL AND DIPLOMATIC
VISAS CAN BE ISSUED IN NO MORE THAN ONE WEEK.

3) ENCOURAGE HUNGARIANS, IN JOINT EFFORT WITH
FRIENDLY WESTERN EMBASSIES, TO IMPROVE AND ELABORATE
THEIR TOURISTIC INFORMATION PROGRAM SO THAT AMERICANS
VISITING HUNGARY WILL UNDERSTAND HUNGARIAN CUSTOMS
RULES AND REGULATIONS PRIOR TO ARRIVAL ON HUNGARIAN SOIL.

4) CONTINUE TO MONITOR GOH PERFORMANCE OF ITS
OBLIGATIONS UNDER CONSULAR CONVENTION, ESPECIALLY RE

NOTIFICATION AND ACCESS IN U.S. CITIZEN ARREST CASES.

D. POLITICAL

- 1) SEIZE FIRST OPPORTUNITY TO INVITE FOREIGN MINISTER PUJA TO MEET WITH SECRETARY IN WASHINGTON.
- 2) ENCOURAGE VISIT TO U.S. OF HUNGARIAN STATE SECRETARY FOR FOREIGN AFFAIRS MARJAI TO RETURN THAT OF DEPUTY SECRETARY INGERSOLL TO EXPAND BILATERAL POLITICAL DIALOGUE AT SENIOR LEVEL; AND, IN FURTHERANCE OF THAT SAME PURPOSE, SEEK TO ARRANGE OFFICIAL VISITS TO BUDAPEST BY COUNSELOR SONNENFELDT AND ASSISTANT SECRETARY HARTMAN.
- 3) REMIND GOH AT EVERY OPPORTUNITY THAT CONTINUED SUPPORT FOR PUERTO RICAN INDEPENDENCE CONSTITUTES GROSS INTERFERENCE IN AMERICAN DOMESTIC AFFAIRS AND CANNOT HELP BUT IMPINGE ADVERSELY UPON U.S.-HUNGARIAN BILATERAL RELATIONS.

E. ADMINISTRATION

- 1) FORMULATE (HOPEFULLY WITH SOME INPUT FROM FBO) SPECIFIC PLAN TO DISPOSE OF UNPRODUCTIVE USG PROPERTY AND ACQUIRE OFFICE AND RESIDENCE PROPERTIES NEEDED TO MEET LONG-TERM INTERESTS.
- 2) MAINTAIN PRESENT (FY 76) STAFFING PATTERN AND CURRENT S&E BUDGET LEVEL; BUT EXPAND FBO MONIES BY AT LEAST 25 PERCENT TO REMEDY DECADES OF DELIBERATE NEGLECT.

F. MILITARY

- 1) ENCOURAGE THOSE NATO ALLIES (E.G. NETHERLANDS) WHOSE EMBASSIES DO NOT HAVE RESIDENT ATTACHES TO ASSIGN CAPABLE, LANGUAGE-QUALIFIED OFFICERS TO ASSIST IN DETECTING POSSIBLE SOVIET ATTEMPTS TO INTRODUCE ADDITIONAL UNITS, OR TO EXPAND THEIR LOGISTICAL BASE
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TO CIRCUMVENT TROOP REDUCTIONS ELSEWHERE IN CENTRAL EUROPE.

- 2) ATTEMPT TO DEVELOP NEW, LONG-TERM CONTACTS WITH FUTURE HUNGARIAN MILITARY LEADERS (BOTH ARMY AND AIR FORCE) BY INVITING LIEUTENANT COLONELS AND MAJORS IN SMALL GROUPS TO VISIT U.S. MILITARY INSTALLATIONS IN CONUS AND WESTERN EUROPE TO OBSERVE NON-SENSITIVE TACTICAL AIR/GROUND TRAINING, MOBILE ARMY HOSPITALS, AIR/SEA RESCUE UNITS, SIGNAL SCHOOLS, AND QUARTERMASTER INSTALLATIONS TO IMPRESS ON THEM EXCELLENCE, MODERNITY AND READINESS -- AND TO INDUCE RECIPROCAL INVITATIONS FROM HUNGARIANS.

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